EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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AN EAR TO HEAR, AND SOME SENSE TO SEE

During the last few years, it seems as though we have started each year in the same way: Warning investors about potential market volatility. This year, as local and global factors converge into a cooking pot of uncertainty, seems to be no different. In the end, however, our advice has been stellar and has rewarded investors who stayed the course.

What we tell investors who are willing to listen

Do not try and time the market – this does not work in the long term. Do not take unnecessary risks – it is one of the quickest ways to destroy wealth. This means that you should not run after returns, especially if you do not know about all of the associated risks. Currently, there is an unhealthy appetite for private-equity investments in South Africa (SA), and many of these managers have taken advantage of needy investors. Desperate investors are quick to forget about Sharemax, Ecsponent, and the like. Investing in cryptocurrencies can fall in the same category but we will speak more about this in future communications. Furthermore, do not be short-sighted and do not let short-term volatility upset you. Try to see past the noise and be objectively aware of your biases. Do not make rash, emotional decisions – make informed, strategic, long-term capital-allocation decisions with the input that we provide together with your financial advisor. In this way, you can not only protect your wealth but even create more in the long term.

Some things we are keeping a close eye on

Locally, we have an important election around the corner, the result of which is still anyone's guess. Two scenarios seem likely: If the ruling party lose enough votes to force them into a coalition with the Economic Freedom Fighters (EFF) in key provinces like Gauteng, South African markets will most likely have a very bumpy ride. If the ruling party, however, goes into a coalition with some smaller parties, instead of the EFF, we might see favourable capital markets all around. Bonds, equities, and even the rand might outperform a depreciating dollar. Our state finances have also come under severe pressure, which will make for an interesting Budget Speech in February. Overall, something radical will be needed in government to shift the policy focus in SA away from rent-protectionist, social-upliftment policies towards wealth-creative policies. This is the only solution for poverty and unemployment in our country. The solution is definitely not to lean more left.

Globally, we are all aware of the social-political tensions, which a poll recently put as the highest risk factor for 2024. OPEC+ seems determined to keep oil prices elevated, which should keep fuel prices elevated in SA. China is still struggling to open the floodgates of growth, which will probably delay the shift in sentiment towards emerging markets for a little longer. It seems as if inflation has been reasonably taken care of in the developed world. The concern now is over the health of economies in the developed world. The question is no longer if the United States (US) will decrease interest rates but if they will be allowed to do so of their own choosing, or if a struggling economy will force them to do so. We are hopeful that the US will not delay in reducing interest rates because that will probably signal to our own South African Reserve Bank that they can start cutting too. We might see a 1% cut in interest rates this year, which means that each R1 million of household debt will cost about R800 less each month. More money to spend will be welcome news to struggling households in SA.

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